




balco

1975 Annual Report



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INDUSTRIES LTD
& SUBSIDIARY COMPANIES

FIVE YEAR FINANCIAL HIGHLIGHTS

FOR THE YEAR (IN \$000)	1975	1974	1973	1972	1971
Sales	\$14,064	\$14,792	\$19,360	\$13,945	\$9,734
Earnings (loss)	371	(386)	1,860	1,280	296
Earnings (loss), as % of sales	2.6%	(2.6)%	9.6%	9.2%	3.0%
Depreciation & amortization	586	646	639	518	454
Cash flow	988	478	2,830	1,930	789
Capital expenditures	409	894	2,075	996	464
Dividends paid	101	252	256	182	—
PER SHARE AMOUNTS					
Earnings (loss) — basic	\$.37	\$ (.38)	\$ 1.85	\$ 1.27	\$.30
Cash flow	.98	.48	2.81	1.92	.79
Dividends paid	.10	.25	.25	.15	—
Shareholders' equity	4.38	4.09	4.75	3.15	2.09
YEAR END POSITION (IN \$000)					
Working capital	\$ 611	\$ 573	\$ 1,556	\$ 736	\$ 97
Long-term debt including					
current instalments	964	1,490	2,301	1,658	1,507
Shareholders' equity	4,404	4,133	4,777	3,173	2,075
Common shares outstanding (in 000's shares)	1,006	1,006	1,006	1,006	1,006

NOTE: The above amounts have been restated as required to reflect accounting changes and the 1973 two for one share split; earnings are before extraordinary items.

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DIRECTORS' REPORT TO THE SHAREHOLDERS

1975 IN REVIEW

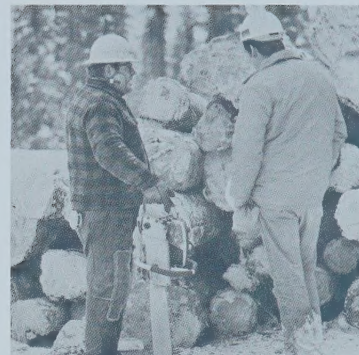
The twelve months ended November 30, 1975 represented a year of progress and recovery for Balco Industries Ltd. Consolidated earnings for the year were \$371,468, or 37 cents per share, representing an encouraging reversal of the 1974 loss of \$386,171 (restated, as described in Note 12 to the financial statements). Consolidated sales amounted to \$14,064,334 in 1975, down slightly from 1974 sales of \$14,792,274. The higher sales in 1974 were attributable to the inclusion of several months' sales revenues for two subsidiaries whose assets were sold in early 1974; combined sales of wood products in 1975 were in fact somewhat higher than in 1974.

As you read this report, you will see featured in the accompanying photographs a few of the 360 individuals employed the the Company at the end of 1975. A large share of the credit for Balco's improved 1975 earnings is due to the untiring efforts put forward by these employees and our other woodlands, manufacturing and office personnel in performing their day-to-day duties in an efficient and productive manner. In addition, an expression of great appreciation is in order to our management personnel for their innovative and capable direction of the Company's operations and administrative affairs during 1975.



Many other factors of course affected the Company's 1975 financial results. Although lumber markets remained soft during most of the year, average sales returns were slightly higher than in 1974. Also, lumber shipments increased by 4 million board feet to 61 million board feet and lumber inventories were reduced to normal levels. These favourable results were due in part to the lumber sales agreement entered into with Canadian Forest Products Ltd. in late 1974 and the agreement has therefore been extended into 1976.

Plywood markets were also weak during much of 1975, and despite some firming of demand in the second half, shipments totalled only 287 million square feet (1/16 inch basis). This volume was well down from 1974, although average sales returns increased marginally owing to a substantially improved product grade mix.



DIRECTORS' REPORT TO THE SHAREHOLDERS (cont.)

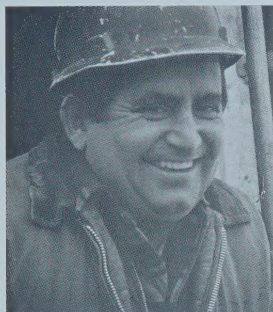
The poor overall market conditions for both lumber and plywood in 1975 can be attributed to two fundamental factors: depressed economic conditions in general, and a low level of housing starts and other construction activity, particularly in the United States.

The situation regarding byproducts in 1975 was rather unusual. As a result of the Timber Products Stabilization Act, pulp chip prices increased substantially early in the year. However, shipments of pulp chips and other byproducts were reduced by as much as 50% from normal levels by the curtailments and lengthy strike experienced by the British Columbia pulp industry. Consequently, the Company's 1975 byproduct revenues showed no appreciable increase over 1974 and a pulp chip inventory amounting to over 22,000 bone dry units was accumulated. Although liquidation of this volume of chips would produce substantial revenues, no value has been attached to the inventory in the financial records of the Company. In any case, the disposal of this inventory is expected to take some time, given the present unfavourable supply and demand outlook for pulp chips.



Costs continued to move upward in 1975, although not as rapidly as in the past few years. Nevertheless, significant increases occurred in such items as property taxes which were 40 percent higher than in 1974. Also, wage rates increased substantially in 1975, although a reduction in average employment kept total outlays for wages, salaries and benefits to \$4.83 million, only moderately above the 1974 level of \$4.55 million. Fortunately, efforts to increase hourly productivity were successful, and administrative and interest expenses were reduced from 1974 levels. These savings, combined with substantially lower stumpage and royalty payments to the Provincial Government, produced a major year-to-year reduction in overall costs.





DIRECTORS' REPORT TO THE SHAREHOLDERS (cont.)

The substantial increase in wage rates during 1975 reflected in large measure the settlement resulting from the extremely protracted negotiations with the International Woodworkers of America. Unfortunately, the settlement awarded in the negotiations was an expensive one not in keeping with economic realities and as a result, the ability of the British Columbia forest industry to compete in international markets has been further eroded.

Woodlands operations proceeded satisfactorily in 1975. Under the Company's supervision, the contractor work force of approximately 125 persons was employed steadily throughout the year in the harvesting of 12.7 million cubic feet of timber. Despite the adverse economic conditions affecting the industry, a normal mileage of forest access roads was constructed during 1975 in keeping with the Company's policy of always having sufficient timber developed to meet current needs. Reforestation and other regenerative, silvicultural and environmental procedures were completed in full and on schedule. As a result of industry representations in which Balco participated, stumpage rates for "dry belt" fir are now being determined in a manner which is more equitable and favourable to the Company, and which recognizes the lower quality of this type of timber.

A considerable amount of time and effort by Woodlands personnel was devoted during 1975 to the hearings of the Pearse Royal Commission on Forest Resources. In addition to assisting with briefs prepared by industry associations, Balco submitted its own brief which supported the present timber sale harvesting licence system of tenure. The brief also stressed that any effective system of forest tenure must place maximum responsibility on the quota-holder for management of all aspects of the forest lands — timber, wildlife, recreation and grazing — and must minimize government involvement in the day-to-day management of the forest resource.

AFFILIATE AND SUBSIDIARIES

Balco's lumber wholesaling affiliate, Pacific Overland Timber Ltd., did not fare well in 1975. Owing to the limited demand for lumber which reduced the volume of business available, Pacific Overland experienced a small loss for the year. This loss would have been larger had it not been for the concerted and effective measures taken by the management of Pacific Overland to reduce staff and cut overhead expenses.

DIRECTORS' REPORT TO TO THE SHAREHOLDERS (cont.)

Waymark Services Ltd., one of the Company's subsidiaries, was affected by the general economic slowdown in 1975, and by lower employment at Balco. The combined effect of these two factors was to reduce sales of both gasoline and diesel fuel. Also, retail prices for petroleum products did not keep pace with cost increases over the past year, resulting in narrower profit margins. Nevertheless, Waymark's activities of providing fuel, food and service to employees, truckers and the public remained profitable during 1975.

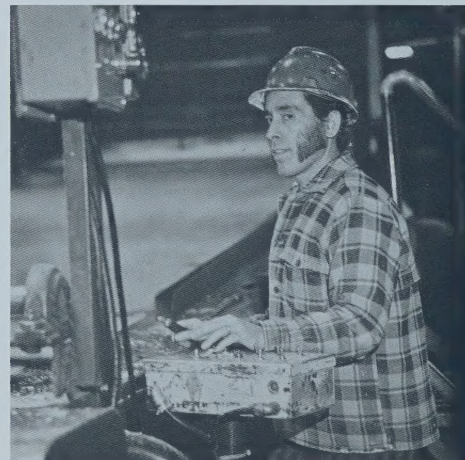
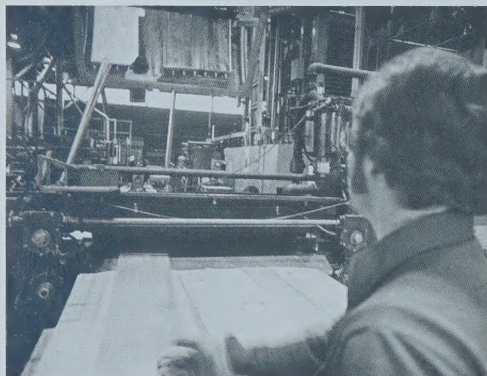
FINANCIAL

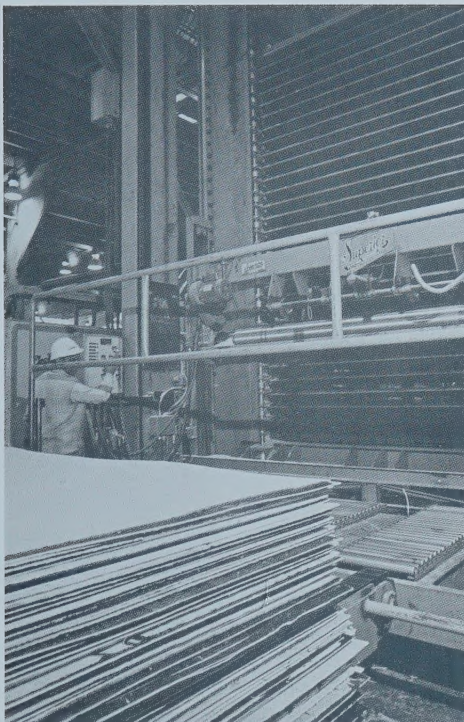
Total capital expenditures during 1975 on new plant and equipment and on forest access roads amounted to \$409,000; fixed asset disposals totalled \$21,000. The relatively limited 1975 capital expenditure program was in keeping with the rather difficult economic circumstances in the industry and focussed on essential repair and modernization items including a lumber strapping station and a new circular gang saw in the sawmill. Also, the program provided for a new first aid building and other improvements to employee facilities as required by the Workers' Compensation Board and the Factories Act.

Working capital increased slightly during 1975 to a satisfactory level of \$612,000, and at year-end the bank operating loan stood at about 10% of the authorized limit. The Company's long-term debt was reduced by \$526,000 to a balance of \$964,000 at the end of the year. Overall, these changes have placed the Company in a strong financial position from which to capitalize on new opportunities and expected improvements in wood product markets.

DIVIDENDS

Owing to adverse market conditions and the Company's unsatisfactory earnings outlook in late 1974 and early 1975, the directors deemed it prudent to omit the November, 1974 and May, 1975 dividends. In November, 1975, the directors declared a dividend of ten cents per share, marking a return to the Company's dividend policy which is to declare regular semi-annual dividends for payment in May and November each year. In keeping with this policy, the directors recently declared a dividend of ten cents per share payable on May 15, 1976 to shareholders of record at the close of business on May 1, 1976.



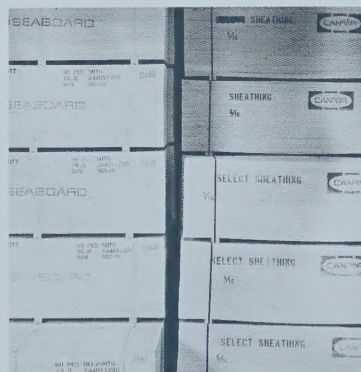
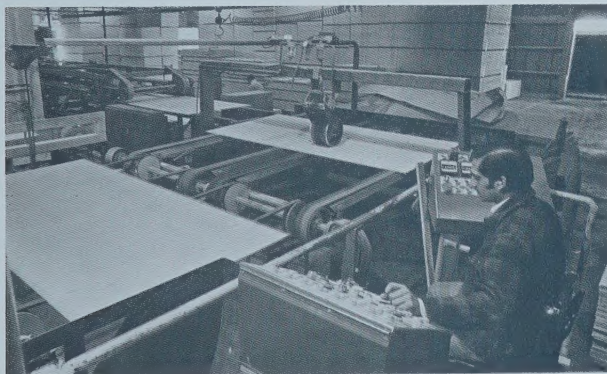


DIRECTORS' REPORT TO THE SHAREHOLDERS (cont.)

1976 OUTLOOK

Several factors provide a basis for optimism regarding the Company's prospects for 1976. First, the economy of the United States would appear to be moving into a reasonably strong election-year recovery, and housing starts are generally forecast to reach a level of 1.5 to 1.7 million in 1976, compared to only 1.16 million in 1975. Accordingly, it is expected that demand in the United States for Canadian lumber will increase appreciably during 1976.

In Canada, housing starts are anticipated to rise from 231,000 in 1975 to approximately 250,000 in 1976, and in fact Canadian housing starts are currently running at a seasonally adjusted rate of 300,000. It is expected that this housing activity will improve domestic markets for lumber and plywood. Moreover, the economic recovery in the United States should increase American demand for plywood; this will reduce the volume of surplus American plywood exported to Canada and will therefore indirectly increase the demand for Canadian plywood.



Another favourable factor affecting the Company's 1976 outlook is that the major collective agreements in the forest industry do not expire until 1977; this should ensure that 1976 will be a year of relative labour peace. Also, it is expected that byproduct revenues will increase in 1976 owing to a modest anticipated improvement in pulp and paper markets and a consequent easing of restrictions placed on deliveries by the Company's byproduct customer. Finally, the change in the British Columbia provincial administration that took place in late 1975 hopefully will result in a return to more moderate attitudes and legislation which will be conducive to prosperity and industrial growth in this province.

On the negative side, the overall economic outlook in Canada gives some cause for concern. It would appear that high interest rates, high unemployment and continuing inflation will not be quickly overcome, although there is evidence that the rate of inflation is beginning to subside. Ironically, this is occurring before the federal anti-inflation guidelines have had time to become effective. The anti-inflation measures unfortunately represent a greatly increased degree of government intervention into business and they will inevitably result in economic inefficiencies, misallocation of resources, and inequities in compensation. Although it is encouraging to note that the rather disturbing proposed levy on export revenues has been withdrawn, the overall effect of the anti-inflation program on the Company's prospects is difficult to assess at this stage. Nevertheless, every effort will be made to comply with both the letter and the spirit of the guidelines.

DIRECTORS' REPORT TO THE SHAREHOLDERS (concl.)

Of more immediate concern to Balco is the possibility of its rail transportation service being disrupted by labour strife such as that currently affecting rail service to certain other parts of the B.C. forest industry. Also, there is some concern that increased lumber shipments could bring renewed rail car shortages which would only be partially offset by the leased rail cars available to Balco.

On balance, however, 1976 promises to be a more profitable year than 1975 for the Company's lumber and plywood manufacturing activities. Also, Pacific Overland Timber Ltd. still enjoys a strong position in the wholesale lumber business and with the improved outlook for lumber markets, it is expected to resume its previous record of profitability. Finally, the operations of Waymark Services Ltd. should produce a satisfactory result despite the somewhat difficult cost-price situation that presently exists in the retailing of petroleum products.

Planned capital expenditures for 1976 total approximately \$600,000, including \$150,000 for forest access roads. The balance of the capital expenditure program will be devoted primarily to normal modernization and replacement items. However, in view of the improved earnings outlook and the Company's favourable debt position, the current capital program may well be substantially expanded later in the year. Major alternative projects presently under consideration include improvements to log handling facilities, a complete sawmill modernization, and expansion of the plywood plant.



All in all, the directors and management of the Company are looking forward to an active, interesting and rewarding period in 1976, a year that will mark the thirtieth anniversary of Balco's commencement of operations.

On behalf of the directors,

D.L. Balison
President

Kamloops, B.C.
March 12, 1976

